

AR21

SKLAR
MANUFACTURING LIMITED

*Sklar
Peppler*

ANNUAL REPORT
1968

President's Report

It is very gratifying to be able to report to you the progress made by your company during the past year. 1968 was a year of accomplishment—a year when management's objectives to overcome the loss position of the previous year were more than met.

Important gains followed the extensive re-organization of management in mid-1967. They reflect the high premium then placed on design and marketing development, on production efficiency and on financial stability, all elements that have enabled your company to achieve and exceed its targets.

Further changes were effected in the company's corporate character, including the restructuring of the debt securities, a move which has considerably eased debt servicing requirements. This and other positive strides enabled the company to improve substantially its level of working capital. Early in 1969, the sale of a block of treasury shares to a group of institutional investors raised for the company approximately \$1.5 million and produced a very healthy working capital position.

As part of the re-organization, the name of the company was changed to Sklar Manufacturing Limited, recognizing the Sklar trade name in fine upholstered furniture. The valued Peppler name was retained for identification of the company's lines of bedroom and dining room suites and occasional tables.

Today Sklar Manufacturing employs approximately 900 men and women in the Sklar plant in Whitby and the two Peppler plants in Hanover. The Sklar plant is the largest producer of household upholstered furniture in Canada. Within the year, Peppler is expected to be the largest producer of bedroom and dining room suites, and occasional tables. With the most modern facilities, Peppler has the capacity for substantial further increases in production without additional plant.

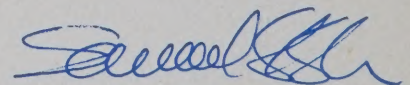
Canada, our chief customer, is an expanding market for the company's products as buying power and population expand. In addition, export opportunities are being created, particularly in the United States, with the gradual reduction of tariff barriers. An export

department has been established to take advantage of these opportunities.

Based on first quarter results and barring unexpected changes in the Canadian economy, your directors anticipate that in 1969 sales volumes will increase again and earnings will advance significantly over those of 1968. In addition to this expansion, we can now envision growth through the acquisition of other companies and facilities complementary to both the Sklar and Peppler operations.

While there are still many challenges to be met and many new and demanding targets for management, prospects for 1969 are good. We look to the future with confidence that your company can realize its first objective, to become the dominant force in the home furnishings industry.

On behalf of the board,



Samuel Sklar,
President.

April 30, 1969

SKLAR MANUFACTURING LIMITED

(formerly Stancor Limited)
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated Balance Sheet December 31, 1968

(with comparative figures for 1967)
IN THOUSANDS OF DOLLARS

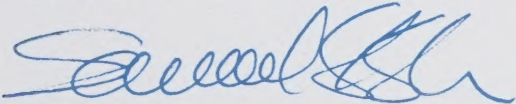
ASSETS

	1968	1967 (restated — note 14)
CURRENT ASSETS:		
Accounts receivable	\$2,174	\$2,240
Inventories (note 2)	2,201	2,024
Prepaid expenses	54	37
Total current assets	4,429	4,301
PROPERTY, PLANT AND EQUIPMENT (note 3)	3,242	3,398
	\$7,671	\$7,699

On behalf of the Board:



Director



Director

(See accompanying notes to consolidated financial statements)

LIABILITIES

	1968	1967 (restated — note 14)
CURRENT LIABILITIES:		
Bank indebtedness (note 4)	\$2,230	\$2,767
Accounts payable and accrued charges	1,458	1,409
Sales and other taxes payable	177	154
Long-term debt due within one year (note 5)	25	284
Total current liabilities	3,890	4,614
NON-CURRENT LIABILITIES:		
Long-term debt (note 5)	4,519	3,928
Less unamortized debt discount and expense	193	195
	4,326	3,733
SHAREHOLDERS' DEFICIENCY:		
Capital stock (notes 6 and 8)	3,717	3,714
Contributed surplus	8	8
Deficit	(4,270)	(4,370)
	(545)	(648)
	\$7,671	\$7,699

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1968

1 PLAN OF REORGANIZATION

Effective July 31, 1968, the holders of the company's bonds, debentures, preference shares and common shares agreed to a plan of reorganization as a result of which —

- (a) The company was released from its position in default of various provisions of the trust deeds under which the bonds and debentures were issued.
- (b) Overdue interest payments on the bonds and debentures were deferred to the years 1970, 1971, and 1972 in the case of the first mortgage bonds and the general mortgage debentures, and were cancelled, in the case of the collateral trust debentures.
- (c) The maturity date of the general mortgage debentures was extended, and interest on these debentures will, in future, be paid only at the earlier of (i) the maturity of the debentures, or (ii) at such times as the company has consolidated net earnings (as defined) and working capital available for the payment of such interest.
- (d) The maturity date of the collateral trust debentures was extended, and interest on these debentures will, in future, be paid only to the extent that the company has consolidated net earnings (as defined) and working capital available for the payment of such interest, and the payment has been approved by the directors.

- (e) Sinking fund requirements were reduced and deferred to a later period in the case of the first mortgage bonds and eliminated altogether in the case of the general mortgage and collateral trust debentures.
- (f) The previously outstanding first preference shares were exchanged for new common shares, four new common shares for one preference share.
- (g) The previously outstanding common shares were exchanged for new common shares and new common share purchase warrants, two new common shares and three new warrants for every five old common shares.
- (h) The previously outstanding common share purchase warrants were in part cancelled and in part exchanged for new common share purchase warrants, one new warrant for every five old warrants.

2 INVENTORIES

Inventories are valued at the lower of cost or net realizable value and consist of the following:				
		1968	1967	
		(thousands)	(thousands)	
Raw materials	\$1,135	\$1,146		
Work in process	590	311		
Finished goods	476	567		
	\$2,201	\$2,024		

3 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Net investment 1968	Net investment 1967
		(thousands)		
Land	\$ 61	\$ 61	\$ 61	
Buildings	1,886	267	1,619	1,671
Leasehold improvements	235	47	188	179
Machinery and equipment	2,854	1,480	1,374	1,487
	\$5,036	\$1,794	\$3,242	\$3,398

4 BANK INDEBTEDNESS

Bank indebtedness is secured by a pledge of the accounts receivable and inventories. In addition, the operating subsidiary has issued to the bank as collateral security a third floating charge debenture in the amount of \$1,000,000 on all its assets.

5 LONG-TERM DEBT

	1968	1967
	(thousands)	(thousands)
First mortgage sinking fund bonds due September 15, 1986, redeemable after September 15, 1971 —		
7½% series A, payable in Canadian dollars	\$1,600	\$1,600
7% series B, payable in United States dollars (U.S. \$500,000)	538	538
Deferred interest due September 15, 1970 and March 15, 1971 (note 1) ..	158	—
Convertible subordinate general mortgage income debentures due September 15, 1987, redeemable after September 15, 1973 —		
7½% series A, payable in Canadian dollars	500	500
7% series B, payable in United States dollars (U.S. \$400,000)	430	430
Deferred interest due September 15, 1971 and March 15, 1972 (note 1) ..	68	—
6½% convertible collateral trust income debentures due November		

15, 1987, redeemable after November 15, 1969	1,250	1,250
	4,544	4,318
Less:		
Instalments due within one year, included in current liabilities	25	177
Instalments in arrears, included in current liabilities	—	107
	25	284
Portion of the proceeds of sale (plus interest) of the assets of Peeper-Selig Limited held by the trustee for the first mortgage bondholders	—	106
	25	390
	\$4,519	\$3,928

The main provisions relating to the long-term debt are as follows:

(a) **Sinking funds —**
Sinking fund instalments required up to December 31, 1973 for the retirement of the first mortgage bonds are as follows:

1969	\$ 25,000	1972	102,000
1970	51,000	1973	135,000
1971	76,000		

- (b) **Security —**
The first mortgage bonds are secured by a first mortgage on substantially all the fixed assets, and a first floating charge on all other assets. The general mortgage debentures are secured by a second mortgage on the fixed assets and a second floating charge on all other assets. The collateral trust debentures are secured by a pledge of the shares of the subsidiary companies.
- (c) **Restrictions imposed by the trust deeds —**
The trust deed relating to the first mortgage bonds contains certain restrictions on the payment of interest on or the redemption of the general mortgage and collateral trust debentures, and the payment of dividends on the common shares. Under these restrictions, such payments shall not reduce consolidated working capital below \$500,000 up to December 31, 1968, such minimum amount increasing by \$125,000 during each succeeding six-month period up to June 30, 1972, and remaining at \$1,500,000 after June 30, 1972. The trust deeds relating to the general mortgage and collateral trust debentures provide that no dividends will be paid in any year on the common shares unless the full amount of interest due in that year on the general mortgage and collateral trust debentures has been paid or provided for.
- (d) **Convertibility into common shares —**
The general mortgage and collateral trust debentures are convertible at the holder's option into common shares at the following prices:

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit and Loss

for the year ended December 31, 1968
(with comparative figures for 1967) IN THOUSANDS OF DOLLARS

	1968	1967 (restated — note 14)
NET SALES	13,023	\$12,043
OPERATING COSTS AND EXPENSES:		
Cost of goods sold	10,184	10,181
Marketing expenses	1,140	1,223
General and administrative expenses	860	964
Depreciation	305	295
Interest on bank indebtedness	203	221
Interest on long-term debt	226	325
	12,918	13,209
OPERATING PROFIT (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	105	(1,166)
INCOME TAXES	57	—
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	48	(1,166)
ADD (DEDUCT) EXTRAORDINARY ITEMS (note 9):		
Reduction in current year's income taxes as a result of loss carry-forward	57	—
Other items (net)	(5)	(351)
NET PROFIT (LOSS) FOR THE YEAR (note 14(b))	\$ 100	\$(1,517)

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Deficit

for the year ended December 31, 1968
(with comparative figures for 1967) IN THOUSANDS OF DOLLARS

	1968	1967 (restated — note 14)
(DEFICIT) EARNED SURPLUS, BEGINNING OF YEAR, AS ORIGINALLY REPORTED	\$(1,565)	\$ 94
Deduct write-off of goodwill (note 14 (a))	(2,805)	(2,805)
DEFICIT, BEGINNING OF YEAR, AS RESTATED	(4,370)	(2,711)
Net profit (loss) for the year (1967 restated — note 14(b))	100	(1,517)
Write-off of share issue expenses	—	(142)
(DEFICIT), END OF YEAR	\$(4,270)	\$(4,370)

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1968
(with comparative figures for 1967) IN THOUSANDS OF DOLLARS

SOURCE OF FUNDS

	1968	1967 (restated — note 14)
Net profit (loss) for the year	\$ 100	\$(1,517)
Add back charges not requiring funds —		
Depreciation	305	295
Amortization of debt discount and expense	2	15
Write-off of deferred charges	—	307
Funds provided from (applied to) operations	407	(900)
Reduction of (provision for) long-term debt due within one year	259	(177)
Overdue interest payments deferred to 1970-72	226	—
Sale of property, plant and equipment	106	10
Proceeds from issue of shares	3	—
	1,001	(1,067)

APPLICATION OF FUNDS

	1968	1967
Additions to plant and equipment	149	176
INCREASE (DECREASE) IN WORKING CAPITAL	852	(1,243)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR	(313)	930
WORKING CAPITAL (DEFICIENCY), END OF YEAR	539	\$ (313)
Pro forma adjustment re sale of common shares (note 7)	1,488	—
PRO FORMA WORKING CAPITAL, END OF YEAR	\$2,027	—

(See accompanying notes to consolidated financial statements)

Period	Price per share
General mortgage debentures —	
Up to September 15, 1972	\$2.50
September 16, 1972 to September 15, 1977	3.50
September 16, 1977 to September 15, 1982	4.50
September 16, 1982 to maturity	5.50
Collateral trust debentures —	
Up to November 15, 1972	2.50
November 16, 1972 to November 15, 1977	3.50
November 16, 1977 to November 15, 1982	4.50
November 16, 1982 to maturity	5.50

6 CAPITAL STOCK

Common shares without par value:
Authorized 3,500,000 shares
Issued 1,081,540 shares
The 1,081,540 common shares outstanding at December 31, 1968 may be summarized as follows:

	Number of shares
"Old" common shares outstanding —	
December 31, 1967	333,500
Shares issued to employees at 1¢ per share	95,750*
Total outstanding prior to reorganization	429,250

"New" common shares issued in connection with the plan of reorganization:
In exchange for "old" common shares,
2 "new" for 5 "old"

171,700

In exchange for the 200,000 outstanding first preference shares, 4 "new" for 1 "old"	800,000
To the first mortgage bondholders at 2¢ per share	94,840*
To the collateral trust debenture-holders at 2¢ per share	15,000*
Total outstanding — December 31, 1968	1,081,540

The authorized share capital was increased to 3,500,000 shares without par value at the time of the reorganization.
The change in capital stock account during the year 1968 is summarized below:

	(thousands)
Balance, December 31, 1967	\$3,714
*Consideration received for shares issued to employees, first mortgage bondholders and collateral trust debenture-holders	3
Balance, December 31, 1968	\$3,717

As at December 31, 1968, 1,171,700 common shares are reserved as follows:

	Number of shares
(i) For possible issue upon the exercise of the 299,550 share purchase warrants outstanding (see note 8)	299,550

(ii) For possible issue on conversion of the general mortgage and collateral trust debentures referred to in note 5 above	872,150
	1,171,700

7 SALE OF COMMON SHARES SUBSEQUENT TO THE YEAR END

On February 19, 1969, the company sold from treasury to a group of institutional investors 350,000 common shares for a net cash consideration of \$1,487,500, which was applied to reduce bank indebtedness. The accompanying pro forma consolidated balance sheet presents the financial position of the companies as it would have appeared had such sale taken place on December 31, 1968.

8 SHARE PURCHASE WARRANTS

The 299,550 share purchase warrants outstanding at December 31, 1968 may be summarized as follows:	
	Number of warrants
"Old" warrants outstanding — December 31, 1967	298,200
Warrants cancelled at time of reorganization	88,200
Total exchanged for new warrants	210,000

"New" warrants issued in connection with the plan of reorganization:

In exchange for "old" warrants, 1 "new" for 5 "old"	42,000
To the common shareholders, 3 "new" warrants with every 2 "old" common shares	257,550
Total outstanding — December 31, 1968	299,550

The new warrants entitle the holders thereof to purchase common shares at a price of \$3.50 per share until July 1, 1978, subject to adjustment under certain conditions.

9 EXTRAORDINARY ITEMS

	1968	1967
	(thousands)	(thousands)
Reduction in current year's income taxes as a result of loss carry-forward	\$57	—
Cancellation of arrears of interest on the collateral trust debentures*	51	—
Costs of financial reorganization	(56)	—
Loss on sale of assets of subsidiary company	—	\$(44)
Write-off of deferred charges:		
Deferred start-up costs	—	(275)
Other	—	(32)
	\$52	\$(351)

*Total interest cancelled amounted to \$81,000, of which \$30,000 relating to the year 1968 has been credited to "interest on long-term debt" and \$51,000 relating to the year 1967 has been shown as an "extraordinary item".

10 TAX LOSS CARRY FORWARD

As at December 31, 1968, the company and its subsidiaries have losses available for carry forward as deductions against future years' profits. At current tax rates, the tax credits which would result from the carry forward of these amounts will, if realized, amount to approximately \$575,000.

11 PENSION PLANS

Salaried employees participate in a contributory pension plan. Hourly-paid employees in the company's plants at Hanover are covered by a non-contributory joint industry-union pension plan. The total pension cost charged to income (including amounts paid to government pension plans) was \$123,000 in 1968 and \$146,000 in 1967.
The unfunded past service liability under the salaried plan is \$20,000, which is being funded over 13 years.

12 LONG-TERM LEASES

The company's Whitby plant is held under a long-term lease expiring in 1986, with renewal options for two further five year periods. The fixed annual rental on this property (exclusive of taxes, insurance and maintenance costs) amounts to \$114,000 during the primary term of the lease and will decrease by one-third if the renewal options are exercised.
The Toronto and Montreal showrooms are held under leases at fixed annual rentals (exclusive of taxes, insurance and maintenance costs) as follows:

1969	\$10,000
1970 to 1975	79,000 per year
1976	76,000
1977	23,000

13 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total remuneration paid or payable by the company and its subsidiaries to its directors and senior officers amounted to \$140,000 in 1968 and \$187,580 in 1967.

14 CHANGES IN ACCOUNTING PRINCIPLES, STATEMENT PRESENTATION, ETC.

(a) In 1968 the company wrote off goodwill of \$2,805,000 against deficit account rather than continuing to carry this amount forward as an asset in the balance sheet. The 1967 comparative figures in the statement of deficit have been adjusted to reflect this write-off.

(b) In 1968, extraordinary items have been included in the statement of profit and loss. To be consistent with the 1968 presentation, extraordinary items in the year 1967 totalling \$351,000, which had previously been treated as charges to deficit account, have been re-classified as "extraordinary items" in the statement of profit and loss. As a result, the net loss for the year 1967 is \$351,000 greater than previously reported.

Pro Forma Consolidated Balance Sheet

December 31, 1968

(Giving effect to the sale, subsequent to the year end, of 350,000 common shares for \$1,487,500 — see note 7)

IN THOUSANDS OF DOLLARS

ASSETS

CURRENT ASSETS:

Accounts receivable	\$2,174
Inventories (note 2)	2,201
Prepaid expenses	54
Total current assets	4,429

PROPERTY, PLANT AND EQUIPMENT (note 3) .. 3,242

\$7,671

LIABILITIES

CURRENT LIABILITIES:

Bank indebtedness (notes 4 and 7)	\$ 742
Accounts payable and accrued charges	1,458
Sales and other taxes payable	177
Long-term debt due within one year (note 5) ..	25
Total current liabilities	2,402

NON-CURRENT LIABILITIES:

Long-term debt (note 5)	4,519
Less unamortized debt discount and expense ..	193
	<u>4,326</u>

SHAREHOLDERS' EQUITY:

Capital stock (notes 6, 7 and 8) —	
Authorized:	
3,500,000 common shares without par value	
Issued:	
1,431,540 common shares	5,205
Contributed surplus	8
Deficit	(4,270)
	<u>943</u>
	<u>\$7,671</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of

Sklar Manufacturing Limited (formerly Stancor Limited):

We have examined the consolidated balance sheet of Sklar Manufacturing Limited and subsidiary companies as at December 31, 1968 and the consolidated statements of profit and loss, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with

generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes in accounting principles and statement presentation described in note 14 to the consolidated financial statements.

In our opinion also the accompanying pro forma consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1968, after giving effect to the transaction set forth in note 7, in accordance with generally accepted accounting principles.

Toronto, Canada,
April 9, 1969.

Clackson, Gordon & Co.

Solomon, Eisenbaum & Nisken

Chartered Accountants

SKLAR MANUFACTURING LIMITED

Officers

Douglas R. Annett — *Chairman of the Board*
Samuel Sklar — *President*
Louis Sklar — *Vice-President and General Manager*
Joseph Sklar — *Vice-President, Design and Product Development*
John E. Sands — *Secretary-Treasurer*

Directors

Douglas R. Annett — Toronto, Ontario
President, Annett Partners Limited
Allan L. Beattie, Q.C. — Toronto, Ontario
Osler, Hoskin & Harcourt
Paul F. Black — Etobicoke, Ontario
Assistant Treasurer, Manufacturers Life Insurance Company
T. Richard Bradbury — Thornhill, Ontario
Vice-President, Annett Partners Limited
Edwin T. Cohen — Willowdale, Ontario
Assistant Vice-President, UNAS Investments Limited
Robert Ducas — New York, U.S.A.
Director, Burnham & Company
Joseph Sklar — Willowdale, Ontario
Executive
Louis Sklar — Oshawa, Ontario
Executive
Samuel Sklar — Thornhill, Ontario
Executive
Jack B. Whitely — Baie D'Urfe, Quebec
Vice-President, Finance, Canadian Interurban Properties Limited

Company Addresses

Head Office and Sklar factory — 617 Victoria Street, East, Whitby, Ontario
Telephone 416-924-7463
Peppler factories — Hanover, Ontario
Telephone 519-364-1640

Transfer Agents and Registrars

Common Shares — Montreal Trust Company, Toronto and Montreal
First Mortgage Sinking Fund Bonds — Canada Permanent Trust Company, Toronto
Convertible Subordinate General Mortgage Debentures
National Trust Company, Toronto and Montreal
Convertible Collateral Trust Income Debentures — Royal Trust Company, Toronto

Auditors

Clarkson, Gordon & Co.
Soberman, Isenbaum & Nisker